

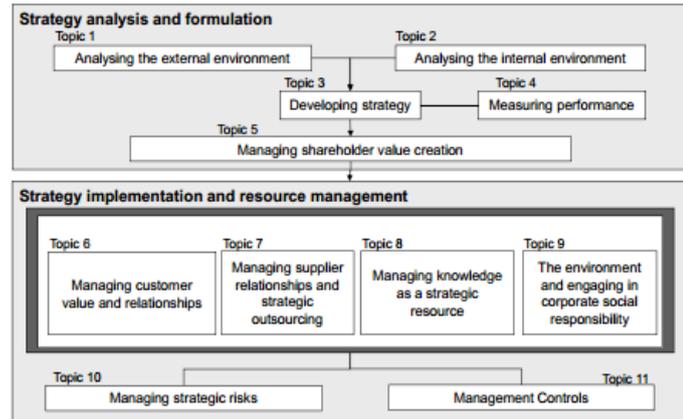
Week 1 – Analysing the External Environment

Introduction/Focus

1. Strategy analysis & formulation – how organisations use info to create strategies, evaluate them & measure performance
2. Strategy implementation & resource management + a firm's relationship with a range of stakeholders

Learning Outcomes

1. Appreciate what is **strategy**
2. Undertake an **analysis** of the **macro environment** – PESTEL
3. Undertake **industry analysis** – Porter's 5 forces model
4. **Recognise opportunities & threats** based on an analysis of an organisation's external environment



Strategy, Value, Resources & Stakeholders

✚ **Strategy** – long term direction of an organisation

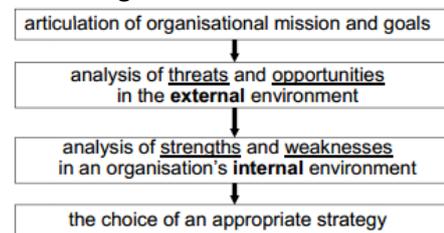
- **Long Term** → 5-10 years (*operational terms / strategic planning context*)
- **Strategic Direction** → Mission (purpose), Vision (what it would like to be), Course (diff. or cost leadership)
- **Organisation** → How broad/narrow the strategy adopted by the firm is. Where it competes & what activities
- Corporate Strategy – what business are we in
 - Business Unit Strategy – how does SBU compete in a specific market *e.g. price or innovation*
 - Operational – how component parts of a firm deliver C & BU level strategies to achieve S.C.A
- **Linear Model of Strategy Formulation** – analysis precedes implementation

✚ **Value**

✚ **Resources** – don't create value alone (*tangible/intangible*)

- **Capabilities** – capacity of the organisation to integrate & deploy resources to achieve a desired objective

✚ **Stakeholders** – individuals/groups whose values/preferences shape the emergence of strategy *e.g. society, employees*



Environment

The **environment** encompasses all external forces/factors that exert some degree of impact on the strategies & actions taken by a firm. The industry environment tends to have a stronger impact than the general. The aim of external environment analysis is to determine opportunities & threats existent in the macro & industry environments of the firm.

General Environment – the broad collection of factors that (in) directly influence every firm within the economy. Firms cannot control these factors & are hard to predict – 1 way r/ship.



Segments	Key Trends
Political	Changes to workplace relation or superannuation; carbon tax
Economic	Low interest rates; GFC; exchange rates; inflation; unemployment rate; stability
Social	Aging population, increase in casual & part time workers, increasing concern for fitness/health
Technological	Wireless communications & hand held devices, genetically modified products, nano-technology
Environmental/Physical	Climate change, pollution & waste concerns
Legal	Legislative changes or constraints, health/safety regulations, merger restrictions

Second, identify key trends & events of the macro environment, than, analyse their impact on the organisation & its industry.

Competitive Environment – impact of general factors often surfaces in the more immediate environment via changes in competitive forces surrounding firms. Analysis of the industry environment focuses upon the impact these forces have on industry attractiveness (profitability potential).

DEFINING INDUSTRIES – we use **strategic groups** – a set of firms emphasizing similar strategic dimensions & using similar strategies – competition between firms within strategic group > than 1 out & 1 in the group. There is more **heterogeneity** in the performance of firms within strategic groups due to similar market positions, products & strategic actions (*competition or innovation*). *Ferrari, Porsche; Kia, Hyundai*. We can view strategic groups as an analytical tool;

Don't want it to be too broad that it is general, nor too narrow that we miss critical factors:

- Identify barriers to mobility that protect against attacks from other groups
- Identify groups whose competitive position may be marginal
- Chart the future of firm's strategies
- Thinking through the implications of each industry trend for the strategic group as a whole

PORTER'S 5 FORCES OF INDUSTRY ATTRACTIVENESS – Analyse competitive environment by branding each force as low, medium or high to conclude whether overall industry attractiveness is low, medium or high. We use this analysis to determine opportunities & threats.

- ✚ **Threat of Entry** – capital requirements, economies of scale, brand identity, switching costs, product differentiation, access to distribution channels, cost disadvantages independent of scale *e.g. from **proprietary product** or **govt. subsidies***
- ✚ **Buyer Power** – buyers are knowledgeable, large purchases involved, product not perceived as critical to buyer's needs, lots of sellers & few buyers, standardised/undifferentiated G&S, few switching costs, threat of backward integration
- ✚ **Supplier Bargaining Power** – inputs crucial to buyer, high switching costs (or differentiated), industry is not important to suppliers, relative concentration of suppliers relative to buyers, threat of forward integration
- ✚ **Competitive/Industry Rivalry** – no clear leader, large # of competitors, high fixed costs, high exit barriers (*specialised assets, shared facilities*), Competitors have little opportunity to differentiate their offerings, slowing market growth
- ✚ **Threat of Substitutes** – substitute G/S can perform the same function as industry offerings. Highly threatening if G/S subject to trends of improving price/performance value or produced by highly profitable industries.
 - Product substitution – email vs. letters
 - Substitution of need – airlines vs. teleconferencing

Week 2 – Analysing the Internal Environment

RBA helps you to find S & W with resource you have

VCA helps you to find S & W with activities you do

Resources → Activity → Capability

Week 3 – Developing Strategy

Learning Outcomes

1. Strategy Formulation Process
2. Variations in Strategy
3. Strategic Options

4. Evaluate Appropriateness of Organisational Strategies

Emergent Strategy (Mintzberg & Quinn, 1996)

Exists where patterns are developed in the absence of intentions (*i.e. intended & realised strategy may not be the same*).

Mintzberg's 5Ps of what Strategy can be

1. **Plan** – how leaders establish a pre-determined course of action
2. **Ploy** – specific manoeuvre to outwit a competitor/opponent
3. **Pattern** – a stream of actions (*consistency in behaviour*)
4. **Position** – “match” between an organisation & its environment (*internal/external contexts*)
5. **Perspective** – an organisations character (*distinct/ingrained way of perceiving the world*)

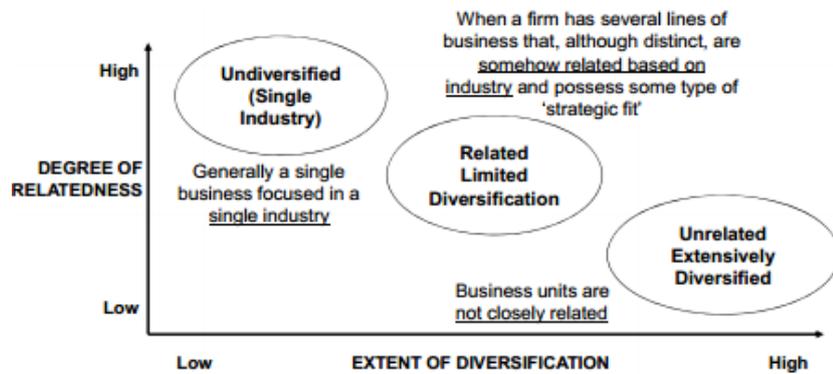
Organisation Strategy

- 🚧 Corporate Strategy – where to compete (*finding the right mix of businesses to be in*) – corporate head office
- 🚧 Business Level Strategy – how to compete in an industry (*direction of a business unit*) – business unit general manager

Corporate Strategy

Corporate Strategy Options

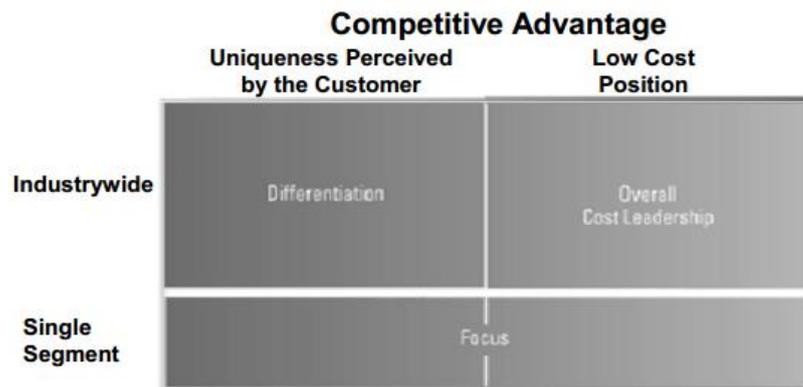
- **Undiversified (single/dominant)** e.g. McDonalds
- **Related Limited Diversification** e.g. JNJ
 - Strategic Fit → shared technology, common skills, common distribution channels, common suppliers, similar operating methods, customer overlap
- **Unrelated Extensively Diversified** e.g. Pacific Brands



Over the long term, & on average, related limited diversification firms perform the best (*then undiversified & 3**). This is because, corporate HQ, in a related diversification firm is able to transfer core competences from 1 business unit to another.

Business Strategy

Porters Generic Strategies



Cost Leadership Strategy – Low Cost Position Relative to a Firm's Peers

This strategy involves managing r/ships throughout entire value chain.

Advantages	Disadvantages
Protects against rivalry from competitors	Too much focus on 1 or a few value chain activities
Protects firm against powerful buyers	All rival shares common input or RM